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PUBLIC ENTERPRISE IN THE EAST AND SOUTH-EAST ASIAN REGION - A COMPARATIVE STUDY*

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Definitional Problem

Most writers on public enterprise have ignored the definitional problem or otherwise have chosen to deal with it in a casual and non-rigorous manner. As a result of this, not only has it been difficult to undertake inter-country comparisons of the public enterprise sector but often it has also been difficult to make inter-temporal study of the sector within the same country.

Following Jones[1] (9), as to which productive entity[2] constitutes a public or private enterprise, depends on four elements: ownership,[3] control,[4] autonomy[5] and 'marketedness'.[6] Ownership and

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1 This section drews heavily from the discussion contained in Jones' book.

2 A productive entity is defined as an identifiable decision-making unit with an explicit or extrapolable budget and which produces goods and/or services.

3 The ownership dimension is specified in terms of the percentage share of government equity and whether or not indirect holdings are excluded.

4 The control element refers to the ability of the government to intervene in the internal and/or the external decision-making process of the enterprise. External controls (e.g. price controls, minimum wage or usury laws) may be applied to 'public' or 'private' enterprises alike and hence what matters is the power to exercise internal control. It is this element that should distinguish a public from a private enterprise with reference to the control dimension.

5 The autonomy distinction is aimed at determining whether the entity is an identifiable decision-making unit and is used to partition the public enterprise set into departmental, statutory and company form of enterprise rather than to bound it. Such a distinction will be useful in testing the hypothesis whether organisational

control serve to determine which productive entities are to be considered "public" while the other two autonomy and 'marketedness' distinguish those which are enterprises.

The disparity in definitions turns on which of the four elements are stressed and how strictly each is specified. For instance, in the United Nations usage of the term public enterprise, (28, p 78) ownership is restricted to majority holdings, indirect holdings are ignored, control is taken to refer to control over internal decision-making and the notion of 'marketedness' is surrounded by considerable vagueness. In the case of Hanson, (7, p 1) public enterprise has been defined to include all industrial, agricultural and commercial concerns which are owned and controlled by the government. No reference is made to the 'marketedness' of the product produced. Jones (9) is the first author, who has attempted to grapple with the problem of defining a public enterprise in a logical and rigorous manner. For his study, he has defined a public enterprise as a productive entity which is owned and/or controlled by public authorities and whose output is marketed. In his definition, ownership refers to more than ten percent of outstanding equity held by a public authority either directly by the government or indirectly by other

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and administrative differences really affect behaviour.

6 The element of 'marketedness' as necessary in segregating 'institutions' producing goods where the public good element dominates, from 'enterprises' producing goods which are primarily private.

public entities (including other public enterprises), control means the power to be involved in the internal decision-making process, most commonly through the power to appoint top management and output is taken to be 'marketed' if sales cover more than half of current costs (9, p 23).

A paper such as this, which attempts to look at the role of public enterprises in selected countries in East and Southeast Asia, and which has to rely on secondary sources for its data, can be handicapped not only by the lack of theoretical and empirical studies on the area, but also by the lack of comparibility in the few works that exist on account of the vagueness and diversity of their definitional frameworks. This is indeed unfortunate since the role of the public enterprise sector in the region is rather significant and has been rising in recent decades and the lack of suitable and adequate data makes it difficult to study its growing importance in a systematic and critical manner.

An attempt is being made currently to fill in the gaps both at the national and international level. The IDRC project on The Performance Evaluation of Public Enterprises in Asia is a case in point, where the public enterprise sectors in eight Asian countries are being studied by reference to a common definitional framework (that of Jones) with a view to assessing their role, importance and performance in quantitative and comparitive terms. The countries included are India, Korea, Nepal, Pakistan, Sri Lanka, Thailand,

Philippines and Bangladesh. However, due to lack of data, the entire public enterprise set, as delineated by the Jones definition, has not been studied in all the countries. This is especially so for India and the Philippines.

For purposes of this paper, this is particularly unfortunate, since the data and literature base for the regional evaluation therefore remains rather limited.

Role of Public Enterprises in East and Southeast Asian Region

Public enterprises have been given an important and critical role in several countries, including these countries in the East and Southeast Asian Region. In this region, public enterprises are being used as an instrument for promoting economic development, reducing inequality, increasing and restructuring employment and attaining certain strategic and ideological goals.

The use of public enterprises in promoting economic development in many countries is readily apparent. For instance, in the past, public enterprises promoted economic development indirectly through the provision of public utility services such as water, electricity and transport. Presently public enterprises are also being given the task of promoting economic development directly by engaging in commodity production. Public enterprises undertake commodity production when they are assigned the role of an entrepreneur in countries where there is a shortage, alleged or otherwise, of general entrepreneurial skills

or are required to venture into industries in which private enterprises are apparently unwilling to invest in, such as large-scale, capital-intensive, high-technology and high-risk industries.[1]

As regards the role of public enterprises in reducing inequality, this is aimed at redistributing income and wealth both among individuals as well as groups. The role of public enterprises in increasing and restructuring employment can be dictated by distributional considerations as well as underlying structural problems in the economy.

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1 It has been suggested that left to itself the private sector will not venture into the large-scale, capital-intensive, high-technology industries, because it is interested in quick-turnover and quick-profits, whereas production in these industries typically entail long gestation periods and the plants have a lengthy life-span. Therefore it has been advocated that the public sector undertake these industries. If the private sector is in fact interested in quick-turnover and quick-profits, what it means is that the private rate of time preference is rather high. Under these circumstances the public sector is justified in going into these industries if the social rate of time preference is significantly lower. It is useful to note here that even where the private rate of time preference is low, the private sector will not be willing to go into industries with long gestation periods and lengthy life-span if profit expectations are poor. In many developing countries in Southeast Asia substantial investments have been undertaken both by large enterprises as well as small peasant tillers in perennial tree crops, such as rubber and oil palm, despite the long gestation periods and long life-spans associated with these crops, whereas the corresponding investments in seasonal crops, such as padi, has been rather low. This suggest that what matters is the rate of profitability, not how quickly the profits can be earned. Therefore if the private sector has been unwilling to go into large-scale, capital-intensive industries, this could be due to the low profit expectations associated with these industries rather than because it discounts the future heavily.

The role of public enterprises in attaining certain ideological and strategic goals is important in centrally-planned economies. For instance, it is the declared aim of some Governments that public enterprises should gain control of the "commanding heights of the economy" say by the nationalisation of existing (especially foreign owned) industries or by establishing new industries.

In Thailand, the rationale for establishing public enterprises can be traced to the desire of the government to promote economic development (both directly and indirectly), reduce inequality and attain certain strategic goals. Ideology has never played an important part in this respect. The role of public enterprises in the provision of public utility services has been a long-standing and critical one. The role of the state as an entrepreneur is a post-war phenomena and "the Government considered that it was necessary to set up various (government) industrial enterprises as an example for the private sector and thus encourage investment in the industrial sector." (22, p 201). In this connection, the entrepreneurial role of the state was not confined to the industrial sector but also was extended into banking and trade. Public enterprises have also been used for reducing inequality, both inter-personal as well as inter-racial inequality. Reductions in inter-personal inequality have been attempted through various price support and price stabilisation programmes which have been undertaken by public enterprises. The role of public enterprises in reducing inter-racial inequality is certainly not as

pronounced in Thailand as in Malaysia but references have been made to it by several observers. Kar Sin Tse, for instance, has argued that as "big businesses were in the hands of Chinese - with or without Thai nationality - who were considered as aliens, this gave rise to strong nationalistic sentiments with the urge to establish public enterprises."[1] (11, p 1).

Over the post-war years, and especially during the sixties and seventies, there has been a serious review of government policy towards public enterprises. This has been motivated by their continued inefficiencies and poor performance, which have thwarted the public enterprises from achieving the objectives for which they have been set up.[2]

As a result the various Thai development plans have stipulated broad policies designed to limit the expansion of the public enterprise sector.[3] The Fourth Plan, for instance, which runs from 1977-1981, has

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1 Muscat and Ingram have also advanced this case. Muscat states that "the real driving force behind the government's industrial programme was the desire to prevent the Chinese community in Thailand from dominating industry". (18, p 229). Ingram has suggested that the increase in the direct participation of the government in trade and production has never been a serious public issue in Thailand on account of the fact that "everybody was aware that if the government remained neutral, business and industry would remain in the hands of the Chinese and other foreigners." (8, p 193).

2 The public enterprises which have recorded satisfactory profit levels are mainly those which enjoy monopoly power.

3 The First Plan (1961-66), formulated a strategy of limiting the expansion of some public enterprises in order not to compete with private enterprises. The policy in the Second Plan (1967-71) only related to the improvement in the level of efficiency of existing

declared that:

(a) the government will close down or sell public enterprises which were originally established to introduce a new industry and those which are now operating inefficiently. These types of enterprises are now to be operated by the private sector.

(b) the government will consider the establishment of new government industrial enterprises, as far as possible, only in those activities which require (i) large budgetry investment on infrastructure, (ii) large capital investment in which private enterprises are reluctant to invest on their own, (iii) complex technology which cannot be provided solely by private enterprises, and (iv) natural resources, where concession for utilising these resources must be obtained for production and that

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public enterprises and the reduction of the significance of government industrial enterprises by allowing private concerns to operate most of them. During the Third Plan (1972-76), investment in public enterprises was cut back and the main policy was to dissolve or sell inefficient enterprises to private concerns. However, during the Third Plan period, no public enterprises were dissolved or sold since the stipulated policy was too broad and did not specify individual enterprises which should be dissolved or sold. (22, p 202).

(c) the government will continue to support monopolistic state enterprises only to control product quality, to stabilise prices and to generate government revenues.[1]

These policies which are designed to limit the expansion of the public enterprise sector are expected to continue into the eighties.

In Indonesia, just as elsewhere, public enterprises have been established to promote economic development, reduce inequality as well as to attain certain strategic and ideological goals. Apart from the variations in the relative importance of these considerations in Indonesia, the 'decolonialisation' rationale has also played an important role in this country. According to Malcolm Gillis, this rationale accounts for nearly 90% of the more than 160 central-government owned enterprises now operating in Indonesia, primarily expropriated from Dutch interests in 1957. (3, p 9). Gillis also states that, "Indonesia, like Malaysia, has established a number of public enterprises in the financial sector intended to promote greater participation by economically weak groups in the development process."[2] (3, p 14).

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1 These public enterprises include the Thailand Tobacco Monopoly, the Government Distillery and the Pharmaceutical Organisation.

2 In this context Gillis refers to two enterprises which have been assigned these roles, namely P.T. Bahana and P.T. Bama Bakti. According to him, "the first, P.T. Bahana, was created in order to

in recent years, and this trend is expected to continue into the foreseeable future, public enterprises are being undertaken to accelerate economic growth, especially by venturing out into the so-called large-scale, capital-intensive, high-technology and high-risk industries.

The Philippines experience provides an interesting conflict between public pronouncements and the actual growth in the number and size of public enterprises. In keeping with its American influence, the first President of the Republic of Philippines, Manual Roxas, expressed clearly that he was opposed to government interference in the processes of production and distribution, and government involvement in business. Similar statements were also made by his successors. Some government enterprises were divested to the private sector. Despite the long established policy of 'getting the government out of business,' the number of assets of government enterprises have been increasing. The fact was that almost every President of the Republic promised to reduce the government's interference in production and commerce at the beginning of their terms of office. Some of them even succeeded in disposing off a number of government enterprises. However, they were forced by socio-political factors to retain or even to create more public enterprises in the latter stage of their offices.

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channel more equity capital and technical assistance to economically weak entrepreneurs in the small and medium-scale industrial sector. The second, P.T. Dana Reksa, is a holding company charged with the responsibility of assisting in the 'Indonesiation' of equity in foreign investment projects. (p 14).

Their continued survival, according to R.S. Milne, is due to the reasons that, first, they attract general support because they are national (nationalist) enterprises; that, second, they provide essential services which cannot be provided by private enterprises, and lastly, they are pioneers in their fields which are not covered by private enterprises, either because of lack of resources or absence of willingness. (17, p 237)

In Malaysia, public enterprises have been used to promote economic and social development as well as reduce inequality. Most of the public enterprises engaged in development are contributing to this indirectly through the provision of public utility services such as water, electricity and transport services as well as health and education services. These enterprises have been in existence from the time of the British colonial regime. In recent decades, and in particular in the post-1969 period, public enterprises are being used as a key vehicle for reducing inter-racial economic differences in the country.[1] The various inter-racial distributional targets set under the New Economic Policies of the government and the Second Malaysia Plan, such as the ownership

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1 The economic justifications advanced for the use of public enterprises to reduce inter-racial and inter-regional inequality has been given in terms of non-financial considerations. "The government will participate more directly in the establishment and operation of a wide range of productive enterprises....in selected new growth areas ....and for....creating a Malay commercial and industrial community.. The establishment of industrial activities in new growth areas often involves a longer period before profits are earned than private firms are accustomed to. In addition, many of the advantages accruing from greater geographic dispersal are of an indirect and non-financial nature from which private enterprises do not visibly and directly benefit in terms of profit realization. For these reasons the government will take a more active role in the establishment and operation of enterprises in commerce, industry and agriculture." (14, p 7).

and employment composition targets, cannot be attained if exclusive reliance is placed on the private sector, including the Malay-owned private sector. It is in order to overcome this likely shortfall, that the public enterprise sector is venturing out into commercial and industrial ventures.[1] The shares in these ventures are being held in trust for Malays until such time as they are able to buy them over form the State. At the same time, discriminatory employment practices in favour of Malays are being instituted to enable them to acquire managerial experience and skills. The role of the public enterprise sector in attaining the distributional targets will assume critical importance in the eighties, as will be evident from the next section when we deal with the quantitative importance of the sector.

In Singapore, the rationale for establishing public enterprises can be attributed to the desire of the government to promote rapid economic and social development. At the time Singapore was granted the status of a self-governing state in 1959, the main concern of the government was to restructure the Singapore economy so as to reduce its

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1 In accordance with the ownership and employment composition targets the government has undertaken to ensure that within a period of twenty years i.e. from 1970-1990,"the Malays and other indigenous people will own and manage at least 30% of the total industrial and commercial activities in all categories and scale of operations" and that the "employment pattern at all levels and in all sectors particularly in the modern rural and modern urban sectors will reflect the racial composition of the population". (14, pp 40-42). The government has pledged that these distributional targets will be attained via the increase of Malay share through their active participation in the expanding national cake rather than through the redistribution of the existing cake. For an enquiry into the feasibility and consistency of these targets and the role of public enterprises in attaining them, see (23), (24).

dependence on entrepot trade and to alleviate the problem of unemployment, which was then quite acute. (19, p 157). Though the government envisaged a larger role for itself in development, it confined itself to the indirect one of providing economic and social infrastructure (including housing) and incentives to attract foreign investment and promote industrial growth. All these were changed by two developments, the expulsion of Singapore from the Malaysian Federation in 1965,[1] and the decision of the British government to close down its military base and withdraw its troops from the island as from 1967. The forcible separation of Singapore necessitated a switch in its industrialization policy from import substitution to one of export promotion. The economic risks of venturing out into new areas of activities,[2] and the political uncertainties associated with separation and troop withdrawals, affected the volume of private investment. Hence the government had to step in and assume the role of an entrepreneur, not only in the manufacturing sector but also in transport, trading and banking and this led to a dramatic increase in the size of the public enterprise sector.

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1 It had joined the Federation in 1963.

2 Professor Lee Sheng Yi has offered the following explanation for the poor response of local entrepreneurs in the industrialization effort of the country. "By tradition local businessmen are commercial-minded. They think in terms of quick-turnover and quick-profit; and management of a trading company is different from industrial management. Some of them may be short of capital. Due to the lack of managerial and technical skill and capital funds the local entrepreneurs' response to industrialization was not great. Thus the government has to step in to fill the missing gap of local response." (13, p 139).

Unlike the countries in South Asia, and even some in the East and Southeast Asian region, most of the public enterprises in Singapore have not been assigned with the role of reducing inequality. The only exceptions are those engaged in the provision of social services, such as the Housing Development Board and the Government Hospitals, which benefit the lower income groups either through discriminatory practices in the selection of beneficiaries or differential pricing policies.

Also, unlike the other East and Southeast Asian countries, it appears that the ideological bias of the Singapore government in favour of democratic socialism does play some part in its policy towards public enterprises.[1] However these socialist leanings have never been allowed to dictate the establishment or management of public enterprises on uneconomic lines. The socialist bias of the government is most apparent in the decision of the government not to sell its interests in public enterprises, unlike many other countries in the region, and this despite increasing charges from the private sector that it is facing 'unfair competition' from the public enterprise sector.

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1 The extent of using state ownership to achieve socialist aims in Singapore can be best illustrated in the words of Dr. Goh Keng Swee, the architect of the Singapore economy and presently the Deputy Prime Minister:

> "It is one of the fundamental tenets of socialism that the State should own a good part of the national wealth, particularly what is called the means of production. In this regard, that is state ownership of the means of production, it is my submission that the socialist state of Singapore is not lagging behind the achievements of socialist governments in other parts of the world (and is) probably ahead of most of them." (4, p 210).

In recent years, there has been a concentration of public enterprises "more in heavy industries than in light industries, and more in capital- and- skill-intensive industries than in labour-intensive industries." (13, p 136). This trend of concentration is expected to continue into the eighties, given the underlying changes in factor endowments and comparitive advantage associated with the emergence of Singapore as a rapidly industrialising and labour-shortage economy.

In Korea, especially in the post-1961 period, since the accession to power of President Park Chung Hee, public enterprises have been used as an instrument for promoting economic growth and development. This has been done by assigning public enterprises with an active role as an entrepreneur, particularly in those lines of activities into which the private sector has been unwilling or unable to go into, such as basic industries. With the exception of those in the financial sector, the public enterprises have not been set up with the aim of reducing inequality. In so far as the enterprises in the financial sector go, these have been invariably owned and operated by the public sector so as to minimise on the concentration of economic power, as had happened in Japan in the hands of the Zaibatsu group.[1]

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1 According to Leroy P. Jones, "the reason for the government's heavy reliance on the public enterprise policy instrument was not fundamentally ideological or historical, although control of private capitalistic power does play a quasi-ideological role. In large part, the size of the sector may be explained as a pragmatic response to the practical necessity of overcoming market imperfections which would have resulted in socially undesirable results if left to the private sector. Some of these imperfections were basic, in the sense of being common to all countries (i.e. natural monopolies, collective

Although Korea inherited a large number of public enterprises from the Japanese colonial regime when it became independent in 1945, nonetheless the public enterprise sector has expanded at a rapid rate in the post-1961 period. This rapid expansion can only be attributed to its use as an instrument for promoting economic development. In fact given that the rate of growth of the public enterprise sector has been higher than the overall rate of economic growth, it has been suggested that the public enterprise sector has performed as a leading sector for the rapid growth of the Korean economy (9, p 203).

As a result of the excellent response of the private sector to government initiative and stimulus, and in keeping with its ideological predisposition,[1] the Park government has now adopted the policy of

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intermediates, and merit goods). These activities may be hypothesized to constitute something like 3-4 per cent of output in most countries, and this represents the practical minimum size of the sector. In 1961, the Korean sector was largely confined to these minimal activities, plus the revenue-producing cigarette monopoly. A small portion of the sectoral expansion relative to the economy was due to the income-elastic growth of these basic activities. Most of the relative growth, however, came from new enterprises established for developmental motives and intended to overcome various private entrepreneurial, managerial and market shortcomings.

As a result of its rapid growth, the Korean public enterprise sector produced 13.6% of non-agricultural output in 1972..." (9, p 204).

1 For instance, President Park has stated that "private ownership of production should be unconditionally encouraged except in instances where it is necessary to control it to stimulate national development and protect the interests of the people." (9, p 218).

gradually selling off its interests in several public enterprises. In fact it has been suggested that whereas "the economic development policy since 1962 has been government-oriented, the development pattern after 1977 could be summed up as a private-oriented economic development." (6 , p 34).

This suggest that the importance of the public enterprise sector is not likely to increase in the future; in all likelihood, it will decrease. In any case, with the change in the country's underlying comparitive advantage position, public enterprises are likely to enter into technology and skill-intensive industries. This will be consistent with the declaration of the Fourth Plan begun in 1977 which is aimed at deepening the industrial structure of the country, with emphasis on technology and skill-intensive industries, and with the heavy and chemical industries accounting for 50% or more of the total manufacturing output.

From the preceding discussion it can be seen that public enterprises have been used for promoting growth and reducing inequality in the East and Southeast Asian countries. Ideological considerations have hardly mattered. In Korea and Singapore they have served as instruments of growth whereas in Malaysia they are being used primarily for reducing inequality (specifically inter-racial inequality). In Thailand, Indonesia and the Philippines they have been used both for promoting growth as well as reducing inequality (again largely inter-racial inequality). There is every sign that the importance of public enterprises will increase in Malaysia, Singapore and Indonesia and

possibly decline somewhat in Korea, Thailand and the Philippines in the eighties.

Importance of ASEAN Regional Industrial Cooperation for the Development of Public Enterprises in the Region

Notwithstanding what has been said above, the importance of public enterprises in the ASEAN region is likely to receive a boost in the eighties if the moves for greater industrial cooperation within the region gathers momentum and strength. The governments of various ASEAN countries have committed themselves to a programme of industrial cooperation among member countries. Of the three approaches to regional industrial cooperation, i.e. across-the-board or selective trade liberalization on a regional basis, a system of complementarity agreements (whereby the participating countries work out a scheme of specialization in existing industries), and a system of 'package deal' agreements, the member countries have opted for the third approach. The package deal approach envisages the establishment of "large scale, capital-intensive, high-technology" industries in the region to be designated as regional industrial projects. These projects are to be allocated to different member countries on the principle of comparitive advantage and on the understanding that these countries will not compete with already allocated industries. This approach is to be supplemented with preferential trading agreements for the products, to give effect to the production arrangements intended.

The first package of industrial ventures comprising of two urea projects, a diesel engine project, a superphosphate project and a soda ash project were identified at the 1976 Bali Summit and subsequently several other projects have also been identified. Given the nature of the projects i.e. their scale of operation, capital intensity, technological-bias and high-risk element, they will invariably be undertaken by or set up as public enterprises. In so far as the first package of industrial ventures go, the two countries which have decided to go ahead with their regional projects i.e. Malaysia and Indonesia, have already decided to float their projects as public enterprises. It is clear therefore that if the momentum towards regional cooperation picks up, then this will certainly result in increasing the role and importance of public enterprises in the ASEAN region as implementors of the regional projects.

Private Sector Complaints about the Encroachments of and Unfair Competition from Public Enterprises

In discussing the role of public enterprises in the East and Southeast Asian region, we noted that many public enterprises have been set up to assume the role of an entrepreneur in those areas of activities into which the private sector has been unwilling or unable to venture into. However with the increase in the size of the public enterprise sector, there have been complaints from the private sector about the encroachments of public enterprises into their sphere of activities, into industries which the latter are perfectly willing and

to undertake and even of unfair competition. This has been certainly so in Malaysia and Singapore.

In Malaysia, "there is a school of thought which holds the view that some of the projects undertaken by the public sector instead of contributing to the acceleration of industrial growth and bringing about balanced development, tend to be in direct competition with the private sector activities. Its argument is that the public sector should as far as possible endeavour to perceive opportunities in commercial and industrial activities which have hitherto not been exploited. Activities such as construction, property development, trading and consumer goods manufacturing are, it is claimed, the traditional preserve of the private sector. They say that even Bumiputra (i.e. Malay) businessmen and industrialists have been complaining about the inroads made by public enterprises, much to their detriment. This school holds the view that even if the urgency of the situation demands participation in less sophisticated and fast-earning activities public enterprises could venture into areas such as agro-based industries, manufacture and export of products using local raw materials, processing and export of food and food products and several other projects in which, incidentally, Bumiputras have a long tradition of skills. It is the contention of this school that the public sector should be more innovative and venturesome in its economic activities and in its choice of projects. Public enterprises when planning to enter into joint-ventures with local or foreign firms should endeavour to venture into projects which can act,

inter alia, as a catalyst for growth and development or to develop markets overseas. Malaysia has to learn soon to treat the rest of the world as her markets as well. Only then, according to the above school of thought, public enterprises would help to generate, on a net basis, for the economy as a whole, new income, employment and growth. Another issue raised by the above school is on the subject of finance. It argues that until such time public enterprises are capable of self-financing they should, on the basis of their credentials, endeavour to raise some of their equity and loan capital from foreign sources such as the Eurodollar and Eurobond markets, or the Asian Dollar markets, and leave the local capital market to be tapped by the private sector. Most local businesses are small and the degree of sophistication of their management is not high enough to look for foreign financing. As the TMP(i.e. Third Malaysian Plan) expects the private sector to play a major role, the school argues that as far as possible local funds should be made available to the local private sector. The above arguments merit consideration" (10, p 56).

Although the complaints of the private sector, particularly those from the Malay private sector has been increasing about public enterprise encroachments and of unfair competition, the Malaysian government has not taken any strong position on this matter. In fact there appears to be some evidence to suggest that some of the public enterprises, especially those which are facing financial difficulties, are receiving some form of privileged treatment in terms of concealed

subsidies, monopolistic rights or captive markets to help them tide over their problems. (26, p 5).

In Singapore, the Deputy Prime Minister Dr. Goh Keng Swee, in denying the allegations of business circles about the threatening encroachment of government enterprises, has explained and argued "that the purpose of government entering into business is to promote economic growth and not, except in special cases to replace private businessmen. These special cases occur, like Singapore Food Industries, when the private sector had clearly failed to provide proper services.[1] The dismal future of private business companies is another example in which government intervention by providing a new management team became unavoidable. Government does not enter into business merely for the fun of doing so.

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1 According to Dr. Goh Keng Swee, the initial object of the Singapore Food Industries, which is a joint-venture project between the Ministry of Defence (MINDEF) and the Ministry of National Development "was to provide certain types of rations for the SAF (i.e. Singapore Air Force) in place of the tender system. Contractors awarded by tender were usually those who quoted the lowest prices. Contractors then bribed cooks in military camps to accept sub-standard quality. After a number of cooks have been caught by the Corrupt Practices Investigation Bureau, I questioned the usefulness of the tender system, a standard practice for the purchase of government supplies. So Singapore Food Industries was established first to provide supplies of dry provision and animal proteins on the SAF ration scale. Later we were able to supply these items to government institutions and even to SIA (i.e. Singapore International Airlines), the last by competitive tender. By October (1977) all food supplies to the SAF will be through SFI, including supplies of fresh fruits and vegetables. This step was hastened because CPIB again detected that contractors were bribing cooks. Soldiers are able to get better supplies because MINDEF maintains strict quality controls through regular laboratory analysis of random selection of food supplies." (5, pp 3-4).

Businessmen who are concerned with the widening scope of government enterprises, instead of grumbling about general principles, should draw attention to specific cases where mismanagement or privileged treatment and unfair competition has occured. Where their complaints are well-grounded, remedial action will be taken. It is idle to discuss general principles because there is no book of rules which demarcates the respective spheres of private and public enterprises and it is fruitless to argue about where the limit should lie. So long as the government can substantiate its claim that these enterprises are run on business lines, receive no special privileges and are fully competitive with the private sector, that is sufficient justification for the existence and the expansion of these enterprises." (5, pp 4-5)

In the context of Singapore, the explanation of Dr. Goh Keng Swee, has been substantiated by academic researchers like Professor Lee Sheng Yi. Professor Lee has argued that public investment in Singapore has not led to the displacement of private investment (as is likely to happen in a full-employment economy) for the following reasons: that "first, Singapore had heavy unemployment until about 1968/69 and now faces recession with retrenchment of workers, second the infrastructure investment has a high marginal social benefit which is far above marginal private benefit in terms of profitability, but it involves large capital investment with high risk. Private entreprises would not be interested in such investment, third, some ventures which are regarded by the private sector to be too risky with heavy capital commitment would not be started unless the government takes the

initiative in investment, (as in iron and steel, shipyard, petroleum etc.)." (13, p 115).

On the basis of the above discussion, it is clear that the rising complaints of the private sector with respect to public enterprises, must be investigated (as has happened in Singapore to an extent) so as to ensure that private investment is not discouraged or displaced unnecessarily. This is a very important consideration for the eighties where the generation of economic growth in the region will still greatly depend on private initiative and enterprise.

Divestiture

In the preceding discussion on the role of public enterprises, we had made references to the committment of nearly all the countries in the region, with the possible exception of Singapore, to divest their interests and holdings in Public enterprises to the private sector. This is understandable since the public enterprises in these countries have not been undertaken on purely ideological grounds.

Whereas in Thailand public enterprises are being sold off because they have fared poorly, in Korea it is being done because of the underlying commitment of the government to a free enterprise philosophy. It is interesting to note here that Korean public enterprises have performed rather well and included among the enterprises which are being divested are some of the most successful ones. In Malaysia the eventual sale of the public enterprises in the agricultural, industrial

and commercial sectors is a forgone conclusion since they are presently being held in 'trust' for the Malays until such time as they are able to buy them over from the State.

The only country in the region where the divestiture of public enterprises has gone some distance and where the experience is indeed a useful one on account of the variety of enterprises sold is Korea. In Korea the enterprises that have been divested include those which were directly owned by the government as well as those which were indirectly owned, for instance, by the Korea Development Bank (KDB).

The KDB, which has functioned both as a funding agency as well as a holding company, has disposed of several of its subsidiaries in recent years. Its divestiture programme has been operated through three methods: firstly, by listing the shares of the public enterprises in the stock market, so that the transfer to the private sector is effected through open market transactions of individual or block of shares at the going market price; secondly, through competitive bidding for the shares of the enterprise as a whole and thirdly, through negotiation, again for the shares of the enterprise as a whole. The second approach is feasible where the public enterprise in question is at least fairly successful and where several private enterprises are likely to make a bid for it. Announcements for the competitive bidding are made in newspapers and the terms and conditions of sale are varied according to the performance and marketability of the enterprise. Where the enterprise is a problem enterprise, soft terms are set with

an arrangement for sale on an installment basis at subsidised interest rates and with a moratorium on the payment of interest and the capital sum during a pre-specified 'grace' period. In the case of sound enterprises, payment is fixed in advance. The third approach for the divestiture of a public enterprise is relevant in the cases of those enterprises where there are few or no private enterprises which are willing to take them over. In this case the KDB or the government attempts to identify potential buyers and tries to interest them to buy over the enterprise through negotiation. Examples of public enterprises which have been sold through the first method are the Korea fertilizer company and the Korea oil corporation. In the case of the former public ownership has been decreased from 100 to 35% whereas in the case of the latter it has been decreased from 50 to 35%. The See Han Motor Company is an example of a public enterprise which has been sold through the third method. There are several public enterprises which have been sold through competitive bidding.

The divestiture of a public enterprise, whether directly or indirectly-owned, has to have the approval of the government. In the case of KDB-subsidiaries, their sale as well as the individuals or firms to whom they are being sold must be approved by the government. The formal clearance is obtained through the Share-Holding Administration Committee of the KDB, which is a high-powered ministerial committee.

In divesting public enterprises or shares in them to the private sector, the government as well as the KDB appears to have been

only concerned with the financial ability of the potential buyers, their management capacity and their future prospects. The likelihood of worsening inequality in wealth ownership has not concerned the planners and policy-makers unduly, and this despite the fact that many of the public enterprises sold have been purchased by big business groups such as Hyudai, Samsung and Dae Woo.[1] The government has been interested only in ensuring that all potential buyers are treated equally and that they are free to participate in the competitive bids.[2] Also no restrictions have been placed on the number of shares each individual or firm can buy through the stock exchange, so long as the share issue is not over-subscribed. In so far as sales have been effected through the stock exchange or competitive bidding, the government has not been concerned with questions of inequality. It appears to have entered into government consideration only where sales have been effected through negotiation. Even here a neutralising argument has been advanced that the big business groups are the best suited to buy and rehabilitate the problem enterprises.

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1 Given the above set of criteria for the choice of potential buyers, these tendencies have been rationalised on the ground that it is the big business groups which qualify to buy the enterprises.

2 Even if everyone had been allowed to participate, questions have been raised as to how competitive the bids have actually been since in the final analysis what matters is command over financial resources. On account of this consideration the big business groups are bound to come on top even where there is competitive bidding.

From the experience of the KDB, it appears that its divestiture programme has been a profitable one. Not only has KDB been able to contribute to the development of new activities and to the rehabilitation of problem enterprises, but it has also been able to recover its capital investment and obtain an adequate return from the sale of its enterprises.[1]

From the Korean experience, it has also been found that with the exception of changes in top management, divestiture need not be accompanied by the replacement of existing employees by new employees.

Given the commitment of several countries to divest ownership in public enterprises to the private sector, the establishment of a suitable mechanism for the transfer of ownership in an efficient, equitable and expedient manner will be a pressing question in the eighties, especially in countries like Malaysia and also Korea. Therefore it will be useful to build on what little has already been learned from the Korean experience. Whereas the Korean experience to-date in effecting the transfer has been fairly efficient, it has left a great deal of unsettled questions on matters of equity and this is bound to be a critical problem in the eighties where international

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1 Generally the Korean government has been willing to divest many types of public enterprises to private ownership, except for so-called basic industries. Even here the definition of basic industries has been changing over time depending on the responsiveness and dynamism of the private sector. For the present moment the iron and steel industry is considered as a basic industry, whereas in the recent past even the fertilizer industry was considered as one.

concern has been shifting from considerations of efficiency and growth to equity and distribution.

The question of equity certainly will be an important question in Malaysia where fears have been expressed that the divested public enterprises may be bought up by the well-to-do Malays. If this happens, the decline in inter-racial inequality associated with government policies will in fact be accompanied by an increase in inter-personal inequality and the concentration of economic power in the hands of the few. Where the sale of the enterprises takes place at a price below the market price this rising concentration would have been facilitated by a hidden wealth transfer to the purchasers.

In discussing the whole question of divestiture, we have not made any references to the political and economic transaction costs associated with the transfer. Jones states that "divestiture, and also nationalization, involves real economic costs as a result of the disruption which accompanies any change in status. The magnitude of these costs varies with the organizational form of the enterprise: e.g. a departmental enterprise staffed by civil servants would be far more affected by a shift to private ownership than a joint stock company directed by independent managers. Political costs are also incurred. Divestiture means a shift of power and status away from bureaucrats, who may be expected to object vociferously." (9, p 131). Thus in considering questions of divestiture it will be useful to compare its benefits (in terms of improved efficiency)

against the costs of transaction.

Quantitative Dimensions of the Public Enterprise Sector

In this section there will be an attempt to gauge the quantitative dimensions of the public enterprise sector in some of the East and Southeast Asian countries for which data are available. As a result of the studies by Jones (9) and the IDRC-funded researchers (21), (29) there are some good data on the contribution of the public enterprise sector to GDP (both for the economy as a whole as well as by sector), employment, capital formation, savings and foreign exchange earnings for Korea and Thailand. Given the common definitional framework employed, the data for these two countries are also readily comparable. There is also some data on the public enterprise sector for Singapore and Malaysia although the lack of a common definitional framework and comprehensiveness make them less satisfactory from our point of view. In so far as Indonesia and Philippines go, there is hardly any data on the sector.

The share of the GDP, as shown in Table 1 accounted for by the public enterprise sector in Korea has been approximately 9% in the seventies, whereas the share in non-agricultural GDP has been still higher at around 12.5%. For a country which is avowedly anti-communist and capatalistic, this is indeed a high share and is comparable with the share of the public enterprise sector in India and Britain which are socialistic in outlook. The figures for Thailand, as shown in Table 1, is however only half that of Korea. There also appears to be some similarity in the industrial composition of the public enterprise sector in India, Korea and even Thailand. "Kandall's coefficient of concordance for India, Korea, Nepal, Pakistan and Thailand was .79 in 1970" (21, p 55). On the basis of the IDRC-sponsored inter-country study, Il Sakong has concluded that "economic ideology is not the only factor, though important, that determines the level and structure of a nation's public enterprise activities. Environmental factors may also be important in determining them. For example, developing economies' common environmental problems of high uncertainty, lack of private entrepreneurial initiatives, and lumpiness of some critical investment projects may force these countries to choose a similar policy tool such as the public enterprise. The tool may or may not be consistent with the nation's ideology." (21, pp 55-56).

Il Sakong hypothesises that once these common environmental problems have been solved and the developing economies reach a certain level of development, "public enterprise activities in countries of the

Table 1

Proportion of Value Added by Public Enterprises in GDP

	Korea[1]								Thailand[2]				
	1963	1964	1970	1971	1972	1973	1974	1975	1969	1970	1971	1972	1973
1. Agriculture	0.3	0.2	0.4	0.4	0.4	9.2	0	0	0.3	0.2	0.2	0.3	0.2
2. Mining	33.9	28.7	22.0	31.9	29.4	21.1	16.6	14.8	0.6	0.3	0.3	0.5	0.4
3. Manufacturing	15.2	14.4	19.5	18.0	15.3	16.0	16.7	16.4	7.4	7.4	6.5	6.11	6.2
4. Electricity	90.2	85.1	81.2	77.5	61.2	67.8	44.9	77.1	46.4	73.2	74.6	71.9	72.7
5. Construction	3.9	1.9	3.2	3.9	5.0	5.0	5.9	6.0	0.1	0.1	0.1	0	0
6. Trade	1.9	2.4	1.0	1.1	1.2	1.2	0.8	1.0	2.5	0.8	0.2	0.2	0.6
7. Transport	45.7	46.2	36.9	30.3	30.0	26.0	21.9	20.5	19.3	16.7	19.9	18.5	17.8
8. Finance	17.8	17.9	33.9	36.7	46.5	52.7	47.4	48.7	14.6	14.2	13.9	14.3	14.2
9. Service	0.1	0.2	0.7	0.3	0.4	0.6	0.7	0.8	1.7	1.8	1.7	1.6	1.7
GDP	6.9	6.3	9.5	8.9	8.9	9.3	8.5	8.9	4.0	4.2	4.4	4.3	3.9
Non-Agricultural GDP	12.6	12.1	13.8	13.0	12.9	12.8	11.6	12.3	6.3	6.1	6.4	6.5	6.2

Notes

1. Proportions are based on current price series
2. Proportions are based on 1962 price series

Source: Il Sakong, Macro-Economic Aspects of Public Enterprise in Asia: A Comparitive Study (Seoul: Korea Development Institute, 1979), Table III-1, pp. 47-50

TABLE 2

SECTORAL COMPOSITION OF VALUE-ADDED BY PUBLIC ENTERPRISES

	Korea				Thailand		
	1963	1970	1973	1975	1969	1970	1973
1. Agriculture	1.8	1.2	0.7	0.1	2.5	1.6	1.4
2. Mining	8.8	3.0	2.4	2.5	0.2	0.1	0.0
3. Manufacturing	30.3	39.2	42.3	46.6	24.5	23.6	19.9
4. Electricity	12.3	13.9	11.8	12.1	16.8	28.0	42.1
5. Construction	1.8	2.2	2.8	3.3	0.2	0.1	0.0
6. Trade	3.0	1.6	2.3	1.9	6.5	2.2	1.7
7. Transport	26.5	21.6	16.6	13.1	32.3	26.7	20.2
8. Finance	15.4	16.2	20.4	19.2	12.8	13.1	11.3
9. Service	0.3	1.2	0.8	1.2	4.2	4.3	3.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Notes: As in Table 1

Source: Il Sakong, op. cit., Table III, pp. 51-53.

mixed-economy Korean pattern may be stabilized. In fact, the public enterprise share for Korea in recent years has been quite stable. A similar stability is also revealed for Thailand, but at a much lower level. Considering its level of development, the share can be predicted to go up substantially in the future regardless of its ideological commitment." (21, p 56). If this hypothesis is valid, then it provides some pointers for predicting and determining the size and importance of public enterprises in Korea and Thailand in the eighties.[1]

The role of public enterprise as a resource mobilizer and an investment agent is readily evident for all countries in the IDRC study, including Korea and Thailand. In fact the public enterprise share of the total fixed capital formation is substantially higher than in GDP and has been increasing over time. For Korea the share has varied between 19 to 40.5% with an average of about 30% and for Thailand between 4 to 7% with an average of about 5½%. In terms of the industrial distribution of public enterprise fixed capital formation, there was again a great deal of similarity as between the various countries with electricity, transportation and manufacturing sectors accounting for 70% or more of the total. The public enterprise sector also plays a significant role as a resource mobilizer, but in the East and Southeast Asian countries its share of the total was somewhat below the corresponding shares in GDP. As was the case in the industrial

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1 See our discussion of the same issue on page 17 , where we came to a different conclusion on the basis of declared government policy.

composition of the public enterprise investment, three sectors, namely manufacturing, electricity and transportation play leading roles in the mobilization of resources in most countries. In addition, the trade and finance sectors also play significant roles. However public enterprises both in South Asia as well as East and Southeast Asia perform a relatively more important function as investment agents than as resource mobilizers. (21, pp 64-72). On the basis of these trends, a continued increase in the public enterprise share of investment and savings in the eighties can be expected, both in Korea and in Thailand. In Korea this can happen despite the observed tendency of public enterprise share in GDP to have stabilized in recent years. This is because, based on past experience, we can expect the public enterprise sector to play an important role in the planned-for deepening of the industrial structure of Korea, with its emphasis on technology and skill-intensive industries and with its aim of ensuring that heavy and chemical industries account for 50% or more of the total manufacturing output by the eighties. There is every reason to believe that these industries will be highly capital-intensive. In Thailand a similar trend can be assumed since the future development of the public enterprise sector will be confined to those industries which are also highly capital-intensive. Existing studies indicate that the contribution of the public enterprise sector to employment and job creation is below its contribution to GDP. The Korean public enterprise sector as a whole contributed to about 7 to 8 percent of the jobs created over the 1963-71 period according to Jones' estimation based on labour compensation

statistics. (9, pp 120-123). For Thailand the figure appears to be less than 1%. (29, pp 112-113). This low contribution to the nation's employment may be partly explained by the fact that most public enterprises engage in highly capital-intensive sectors. In the case of Korea, the public enterprise sector was almost three times as capital-intensive as the economy as a whole or almost twice as capital-intensive as the Korean manufacturing sector. (9, p 123). These trends in employment can be expected to continue unchanged into the eighties. Whereas this will not pose any serious problem in Korea, which has already developed into a labour-shortage economy, it can have serious repercussions in the labour-surplus economy of Thailand.

In the Korean economy, the public enterprise sector appears to have exerted a favourable impact on the foreign exchange market. According to Jones, the direct and indirect imports of the public enterprise sector substantially exceeded its direct and indirect exports, yielding a sectoral trade deficit representing 11.6 percent of that of the economy as a whole. However, the public enterprises which were established in the post-1961 period were heavily import substituting, and this more than offset the explicit trade effect. "The nation's current account deficit would probably have been some 25 percent larger had the public enterprises not been operating". (9, p 203). Similar calculations have not been made for Thailand or any of the other countries. The import-substituting character of Korean public enterprises may increase further in the eighties as the country's

planners deemphasize their export-oriented development strategy in favour of a more inward-looking one to take account "of the recent resource crisis, rampancy of trade protectionism and deepening resource nationalism" (6, p 14). If past experience is anything to go by, this should not exert an unfavourable effect on the foreign exchange market.

The quantitative dimensions of the public enterprise sector in Singapore has yet to be investigated in a systematic and comprehensive manner as in the case of the countries in the IDRC study. Hence there are no firm data on the contributions of this sector as a whole to GDP, employment, investment, savings and foreign exchange earnings. On the basis of some disaggregated data, one can make some guestimates of its contributions to some of these variables. In all likelihood the contribution of the public enterprise sector to GDP will be at least 10% of the total. The entire GDP originating from public utility services can be attributed to the public enterprise sector, given that these services are provided by public enterprises. This alone will account for 2.5% of Singapore's GDP. Similarly a significant proportion of the GDP originating in transport, construction and ownership of dwellings[1] will be accounted for by the public enterprise sector, given the dominance of public enterprises, (such as the Housing Development Board, Singapore Airlines, Neptune Orient Lines and the Port Authority

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1 The percentage of the Singapore population living in the Housing Development Board flats rose from 11.4% in 1961 to 51% in 1975. (13, p 117)

of Singapore), in these sectors. Even in the manufacturing and financial sectors, public enterprises will account for a sizeable proportion of GDP. Estimates by Lee Sheng Yi shows that public enterprises both directly and indirectly owned approximately 40% and 60% of the share capital investment in manufacturing and service companies in the mid-seventies. (13, pp 134-139). Given the attempts of the government to develop Singapore into an international financial centre and to concentrate in capital-and-skill intensive industries, (in which public enterprises have played an important role), the size of the public enterprise sector can be expected to increase in the eighties both in terms of its contribution to GDP as well as aggregate investment.

As in the case of Singapore, the size of the public enterprise sector in Malaysia has not been quantified. However the size of the public sector as measured by the ratio of total public expenditure to GNP has increased from 24.7% in 1966 to 34.4% in 1976. (1, p 51-64). The share of public investment to gross capital formation has increased from 38% in the sixties to 49% in 1975 and the share of public consumption in total consumption has increased from 21% to 29% over the corresponding period. As regards public sector employment, it has increased very substantially, from 309,000 to 464,400 from 1967 to 1975 which constituted an increase of 13% to 14% as a proportion of the total employed. (27, p 2). Guestimates suggest that the contribution of the public enterprise sector per se to GDP will be less than 7%. Of this the GDP originating from public utility services, which are all provided by public enterprises, is

about 2.5% of the GDP. However there is unmistakable evidence to suggest that the size of the public enterprise sector has been rising over the seventies, and will certainly continue to rise in the eighties.

The increasing importance of public enterprises in Malaysia can be attributed to its use as an instrument for reducing inter-racial inequality. In this respect, the role of public enterprises in attaining the 30% wealth ownership target is critical. In 1976, for instance, of the 10.3% of the share capital held by Malays and Malay interests (including public enterprises) no less than 6.7% was accounted for by public enterprises. (16, p 49). Of the targetted 30% in 1990, public enterprises are expected to account for 23% of the total share capital and Malay individuals and enterprises will make up only 7% of the total. (15, p 87).

Public Enterprise Policy on Prices, Investment and Rates of Return & Public Enterprise Performance

In this section, a review of public enterprise policies and practices in the area of pricing, investment and rates of return will be attempted. We will examine the principles (if any) that guide public enterprise pricing policies, the investment criteria (if any) that are used in choosing between alternative public enterprise investment, and the returns criteria (if any) that are used in evaluating the performance of public enterprises. We will also examine where possible the differences in the criteria used as between sectors as well as the actual and likely changes in these criteria over time.

In a major study on Korean pricing policies and economic development, Gilbert Brown has investigated, among other areas, government product pricing (2, pp 77-109). This he has done with reference to several key public enterprises, such as the Korea Electric Company, the Korea National Railway, the Telecommunication Agency, the Water Works and the government-owned Coal and Cigarette Companies. From his investigation, Brown states that the initial tendency in public enterprise pricing policy has been to control prices at less than their short-run competitive market equilibrium levels, as reflected in excess demand, administrative rationing, and corruption. However he states that policy changes during the period were always in the direction of increasing prices, to bring them closer to their short-run equilibrium levels. According to Brown, the "increases in product prices to bring them much closer to equilibrium levels resulted in increased national saving and investment, a more rapid rate of income growth per unit of investment, an improved balance of payments position, less inflation, lower costs and prices through increased output (i.e. greater economies of scale), and benefits to consumers generally and to lower-income groups particularly. Important administrative benefits were also obtained by raising prices toward equilibrium levels. Particularly it reduced demands upon administrative talent, one of the scarcest of developing country resources, to make specific allocation decisions among competing consumers... Another important benefit was to reduce bribery and corruption by reducing the number of situations in which an administrator could control the access of a specific consumer to a desired good, service, or factor of production. Also,

closer to equilibrium prices made it possible to estimate much more accurately the equilibrium level of demand for specific marketables, and therefore to make more efficient investment decisions." (2, p 102).

As a result of the improvement in pricing policies, the Korean public enterprises have been able to finance more than two-thirds of their gross investment from their savings (profits plus depreciation) (2, p 79). This is in marked contrast with the experience of a number of countries where many government-owned enterprises operate at substantial deficits, and significant sums of general government revenues must be used just to meet these deficits, and where new investment must be financed by yet larger government expenditures and by borrowing from the private sector.

The preceding discussion on pricing sugges' that Korean public enterprises do attempt to adhere to a policy of optimal pricing since prices were closely approximated with short-run marginal cost. In all likelihood, investment decisions with respect to inherited capacity i.e. whether to add on to it or run it down, would have been also based on optimality calculations. For these calculations, comparisons would have had to be made between short-run marginal cost and long-run marginal cost. However, no detailed investigations have been made into these questions. In so far as new investments go, there is no doubt that these were based on considerations of efficiency, growth and comparitive advantage. All investments in public enterprises have been made in the context of the government's long-term economic development

plan and its overall industrial policy. In this respect "the government has not sought to compete with the private sector, but rather to undertake new industrial investments only when necessary either to avoid creating a powerful private monopoly or to introduce a large-scale activity where private capital has not been available or able to do the job, at least not without very large-scale government financial support."[1] (2, p 78).

As regards the performance of the Korean public enterprise sector, Jones has argued that "by world standards for public enterprise the Korean sector does extremely well. At the crudest level, this follows from the fact that when an economy is growing at a real rate of 10% annually, a sector which takes 30% of investment cannot be using its resources too inefficiently. At a less aggregate level, it is simply not possible to find in Korea any prolonged examples of the sorts of egregious inefficiency which characterize many public enterprise sectors. Indeed, preliminary work on Korean fertilizer and iron and steel industries suggests that, in at least some cases, Korean public enterprise engineering efficiency is extraordinarily high by LDC standards, and not markedly deficient when compared with similar operations in industrial nations. It is, however, widely believed that Korean public enterprises are less cost-efficient than their

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1 The government took the leadership in building the first two fertilizer plants and the first oil refinery, but three additional fetilizer plants and two additional refineries have been built largely with private domestic and foreign capital.

private counterparts. I would certainly agree with this view, but would also argue strongly that the public/private gap is much smaller in Korea than in most LDCs." (9, pp 205-206) Jones has attempted to explain the high performance of the public enterprise sector in Korea with reference to its skilled and energetic labour force, as well as the government's dedication to growth and readiness to deal with inefficiencies with dismissals, where necessary.

To bring about a continued improvement in public enterprise policies and management into the eighties, the Fourth Korean Plan enumerates several proposals for action. (12, p 24). Firstly, the management information system for public enterprises is to be efficiently utilized to facilitate the setting of managerial goals and the ex-post evaluation of performance by these enterprises. Secondly price subsidy policies are to be eliminated so that the users pay the value of public enterprise products. Thirdly, an appropriate rate of return on the investments of public enterprises is to be set in order to expand their capital-mobilizing ability in both domestic and foreign capital markets. Fourthly, public enterprises are to be asked to sell off their investment in shares of other corporations so that they can fulfill their intended function more efficiently. Lastly, it is also the government's long-run goal to divest itself of public enterprises by sale to the public.

Coming now to public enterprise policy in Thailand,[1] most

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1 This section is based on (19).

Thai public enterprises are free to adjust the prices of their products, the few which are excepted are required by laws to submit price adjustment proposals to the Cabinet for approval. For revenue generating public enterprises, prices are fixed according to the maximisation of profit rules. For enterprises compating directly with private undertakings, prices are, of course, determined by the market. The central problem of pricing policy in Thailand therefore concentrates on the pricing of public utility particularly electricity whose prices are controlled by the government. In the past, experiences indicate that prices of public utilities have in most cases been adjusted upward only slowly. There are two main reasons for this practice. The first reason concerns the economic stability argument which utilises public enterprises as a means to slow down inflation rate. The second reason is a non-economic one which centers on the political cost of adjusting prices upward. Judging from the Thai experience, the government usually feels more confident in raising prices only if the general public gets better service in return for the price increases.

No clear cut guidelines on the financial policy of public enterprises exists at present. Two important points should be pointed out in brief here. The first point concerns the government policy of lending to public enterprises at interest rates lower than the market rates. This policy has resulted in public enterprises looking primarily to the government for financing their investment programmes. The second point concerns the policy of giving subsidies in the form of budgetry

grants and other subsidies to public enterprises. While these grants have been designed to compensate for losses incurred from operations which the government asks public enterprises to carry out, they certainly reduce the urgency of making decisions on upward price adjustments.

As regards the criteria for investment decisions, in most cases it can be said that financial projections are the only information required in appraising investment projects. For monopolistic public utility enterprises, however, the analysis of demand represents a crucial factor in appraising investment projects. The economic rate of return calculations are required only in exceptional cases, mostly associated with borrowings from international lending institutions. Finally to the extent that internally generated resources are used to finance investments of industrial and agricultural enterprises, it has been the general practice that the board of directors together with the responsible ministries have been allowed to make investment decisions with only minimum outside intervention.

In Thailand appropriate criteria has not been formulated to evaluate public enterprise performance, especially in those cases where the enterprise in question has been assigned with multiple objectives. In the absence of any well-formulated criteria, public enterprise performance has generally been evaluated in terms of commercial considerations. On this count Thai public enterprises have performed very poorly as attested to by official sources such as the plan

documents as well as independent researchers. "The low production efficiency and the low rate of return has inhabited the utilization of these enterprises as price stabilizers or sources of government revenue." (22, p 201).

To ensure that the operations of state enterprises contribute significantly to overall economic and social development in the eighties, the government has formulated the following strategies and corrective measures for public enterprises.

(1) The government will study the objectives and the operations of both new and existing state industrial enterprises in order to identify those which should be dissolved or sold to private concerns. Procedures relating to the transfer of ownership, capital investment and government assistance that will be provided will be laid down in accordance with national policies.

(2) The government will formulate operational and administrative planning. These plans will define the scope of operations of the responsible agencies, the relevant budget, time and working location so that state enterprises can operate efficiently, effectively and economically. Definite procedures for controlling the

investment of state enterprises are to be laid down and greater freedom of action for state enterprises are to be promoted.

(3) The government is to encourage cooperation and joint investment with the private sector in industries which are new in Thailand and

(4) Laws and regulations controlling state enterprises are to be revised with a view to facilitating a greater degree of efficiency in the operations of such enterprises and to allow more operational flexibility. Government control of the operations of state enterprises are to be retained (22, pp 201-204).

Let us now review public enterprise policies and practices in Malaysia. In respect of investment policy, the sectoral pattern of investment is determined by the national economic plan, generally with reference to considerations of resource endowments and comparitive advantage and the needs for a diversified economic base. In more recent years this pattern has also been influenced by the desire of the government to reduce inter-racial economic differences in the country and in particular for increasing Malay participation in commerce and industry.

In principle, it appears that the government has a say on public enterprise policies on how much to invest, where to invest and what to invest in. However in practice, given the large number of projects that will come up for approval to the Economic Planning Unit and the Treasury and the limited size of the professional staff of the latter institutions, their decision is not likely to be based on thorough analysis. This appears to be so especially in the case of the new public enterprises in the commercial and industrial sector. These enterprises are being given a lump sum allocation for each plan and they are left to decide on the type of projects to be undertaken. This is also the case with public enterprises in agriculture, except where large scale projects are being undertaken. In the case of large scale projects including regional development schemes, decisions whether or not to go ahead with them are based on fairly detailed feasibility and appraisal reports of consultants. Where external lending agencies are involved such as the World Bank, they prefer to undertake special appraisal studies prior to approving their loans.

As in the case of investment policies, no clear cut guidelines exist regarding the financial aspects of public enterprises, such as their debt-equity ratios (both long and short-term ratios) and the required degree of self-financing of their capital expansion programmes. There is a marked difference in the extent of grant and loan-finance provided to various public enterprises. It appears that the expenditure incurred on social and economic overheads associated with the establishment of an enterprise are generally grant-financed. The expenditure

on 'directly productive' assets of the enterprises are loan or grant-financed. This latter consideration has made for part of the differential in the rates of government support and subsidy given for different activities and groups of beneficiaries. Our investigations show that such differential support and subsidy often cannot be justified on grounds of allocative efficiency or distributional justice. (25 , pp 171-209).

In examining pricing policy, it is clear that this varies with the type of market structure under which a public enterprise operates, the activity in which it is engaged in and the nature of the good it produces. Generally for public enterprises which are operating in a competitive environment, prices are allowed to be determined by market forces. For those enterprises which enjoy monopoly power (as in the case of some of the public utilities) and which produce so-called essential commodities (such as sugar) the prices they charge must have the prior approval and sanction of the responsible minister or even parliament.

In this regard, those public enterprises which are engaged in export-oriented agricultural activities sell their produce at world market prices net of export duties, just as any private enterprise. On the other hand, enterprises which are producing import-competing goods, such as rice and manufactures, are protected from imports by a deliberate policy of the government aimed at encouraging domestic production of such goods. As a result, domestic prices of such goods

are maintained at a level above world prices. However, there has been no conspicuous disparity in the treatment accorded to public and private enterprises in this regard to-date.

Generally it is only in the area of public utility can one detect some form of government guidelines on pricing for public enterprises. Even here the position is not entirely clear. A public utility is authorized to levy in accordance with a scale, which it shall frame, and may alter tariff rates for the services it provides, subject to the approval of the responsible minister and parliament. Generally the tariff rates are designed to reflect actual costs, including renewal provisions and loan servicing. In the case of those public utilities which are recipients of World Bank loans, the tariff rates are also required to generate sufficient revenue to meet specific financial targets with respect to rates of return and degree of self-financing of capital expansion programmes.

For instance, the covenants of the World Bank loan agreements with the National Electricity Board (NEB) and the Telecommunications Department of Malaysia (TDM) stipulate that their tariffs should be sufficient to produce an annual rate of return of not less than 8% on the value of their net fixed assets and to finance between 40-50% of their capital expenditures.

It appears from the above that the tariff structure of a Malaysian public utility is based on the full cost principle with an appropriate mark-up to ensure a target rate of return on its net fixed

assets. But this does not necessarily mean that it is incorrect or inconsistent with the principles of marginal cost pricing. If there are no increasing returns to scale and if past investment decisions had been optimal, so that at any given time the public utility does not suffer from excess capacity or excess demand, the demand function for its services will be such as to enable it to charge a price which will cover variable cost as well as the annual equivalent capital cost per unit of output. To that extent, price will equal average cost and will be above marginal cost. If, on the other hand, there had been over-investment, or a contraction in demand, this would have resulted in excess capacity and under such circumstances the principle of marginal cost pricing would suggest that price should be less than average cost but not below marginal cost. The Malayan Railways which appears to be afflicted by the problem of excess capacity does charge a price which is certainly below average cost. Where there has been under-investment or an expansion in demand, price should be above average cost. In the case of the NEB and the TDM, there has been a continuous increase in the demand for their services overtime so that they have been faced by the problem of excess demand rather than excess capacity. This being the case, their price must equal or exceed average cost. To that extent the observed practice of the NEB and the TDM in relating their tariffs to cost of supply cannot be faulted. In fact their average cost constitute the floor-price, and if anything, the tariff rates should be above this. The question, of course, is to see whether the prevailing tariffs soak up all the excess demand. This is not happening and as

price increases are subject to government scrutiny and approval, the enterprises concerned are forced to resort to physical rationing to equate demand with existing supply.

In passing, it is interesting to note that those public utilities which face severe competition from alternative modes of supply, such as the Malayan Railway (MR) and the Port Authorities, have invariably taken the prices charged by their competitors as the ceiling prices and accordingly set rates which are below this ceiling. For instance, it is through such a pricing policy that the MR has been able to minimise the problem of excess capacity from which it would have suffered otherwise, as has been the case with many other national railroads.

However there is one respect in which the pricing policies of some of the public utilities in Malaysia can be criticised. An examination of the tariff structure of the NEB as well as the TDM (in so far as local calls go) shows that there are no variations in the basic rates for time of year and time of day sales in electricity and telephone service. This can only be justified if there are no significant seasonal or daily variations in the demand for these services. Since there are such variations in demand, as indicated by empirical observations, the levying of uniform tariff rates will conflict with the principle of marginal cost pricing.

Let us now summarise our findings on the policies and performance of public enterprises with respect to rates of return.

There are several public enterprises which have been assigned multiple objectives, including non-commercial ones. However, most often these objectives have not been properly specified and quantified. As a result it has been doubly difficult to determine whether public enterprises are achieving their non-commercial objectives and the extent to which their commercial performance have been affected by the pursuit of these objectives. In fact where public enterprises undertake activities or perform services of a non-commercial nature, it is best to quantify their costs and provide them with explicit subsidies to cover such costs or assign them lower commercial targets. Otherwise, where an enterprise earns a low return or make losses, this can always be attributed to its pursuit, alleged or otherwise, of some non-commercial objectives, and organisational or managerial inefficiencies, can thus be hidden from public scrutiny.

The problem of public enterprises in Malaysia is not just confined to the inadequate specification and quantification of their non-commercial objectives; more seriously they are not even set appropriate commercial targets. The only public enterprises which have been set specific commercial targets are those which have received loans from the World Bank. It is important to note here that, although the Federal government is a party to all agreements signed between the external lending agency and the domestic borrower and that such loans are guaranteed by the Federal government, nonetheless it is the World Bank which imposes the commercial targets on the enterprises concerned as a condition of the loan. Presumably the only sanction the World

Bank has against the violation of this condition is to deprive the defaulting public enterprise from receiving any loans from it in the future. Although the World Bank may be perfectly justified in imposing such targets as a way of ensuring the repayment of its loans, it is interesting to speculate to what extent the imposition of such condition will compromise the sovereignty of the borrowing country.

Inspite of what has been said above, it is possible to argue that most of the public enterprises which have been established in the country in recent years have in fact been assigned with the task of spearheading Malay participation in the modern sectors of the economy. And this by providing them with jobs and holding the assets in 'trust' for Malays until such time as they are able to buy them from the State. Therefore one could conceivably evaluate the performance of a public enterprise in terms of the number of jobs and the amount of wealth it has created for the Malay community. But the critical issue is how viable these jobs and wealth are. If they are not viable, they cannot represent permanent additions to Malay jobs and wealth. As will be stated shortly, many of the new public enterprises are not commercially viable and therefore the jobs and wealth associated with them are likely to be no more than transitory gains and will cease to exist when the enterprises close down. In this regard, although employment in public enterprises can serve as a means for the Malays to acquire skills and expertise, the lack of data and an improper specification of this function, may make it difficult for one to evaluate the actual contribution of public enterprises in this direction.

In order to evaluate the commercial performance of public enterprises, there has been an attempt in the main study, to generate estimates of their rates of return, along lines adopted by the World Bank. Among the enterprises whose rates of return have been estimated are the public utilities, major transport companies and key holding companies in the commercial and industrial sector. However there has been no attempt to evaluate the performance of regulatory, promotional, planning and coordinating agencies, as their activities do not readily lend themselves to a commercial type of analysis.

From our study it is very apparent that the performance of public enterprises in export-oriented agricultural activities are good whereas those in import-replacement activities are not satisfactory. In the field of public utilities, the experience is somewhat disparate. The TDM and the MEB have recorded rates of return which are in excess of the target rates but the MR has been making continous losses for well over a decade. However the picture appears to be particularly dismal when one examines the public enterprises in commerce and industry.

An examination of the uneven performance of public enterprises in agriculture as compared to those in industry is very instructive. The agricultural activities into which the public sector ventured, such as the cultivation of rubber and oil palm, were of proven commercial merits and well-established in Malaysia. In fact, these were activities in which the country had accumulated an invaluable stock of knowledge

and experience over the course of several decades and in which it had displayed some capacity for innovations. Despite these natural advantages, the ventures that were undertaken by public enterprises in this area were well-planned and cautiously executed, and decisions whether to go ahead with major projects were invariably based on fairly thorough appraisal studies.

On the other hand this does not appear to be the case with public enterprises in the industrial sector. Not only is it true that the public sector has little or no knowledge of industrial undertakings, but even the national experience in industrialization is a short and limited one. Hence we do not exactly know the industrial activities in which we enjoy comparitive advantage. In the face of this gap in knowledge and experience, one would have expected our decision-makers to commission fairly detailed appraisal studies before undertaking any major ventures. This does not appear to be the case and all too often the pace of investment of public enterprises seems to have been forced and hurried.

Even a casual examination of public enterprises in industry points to the problem of defective planning and foresight. For instance, some of our resource-based industrial enterprises are often confronted by an inadequate or irregular supply of critical raw materials. Other enterprises are constrained by the small size of the domestic market and their inability to compete in export markets. These factors lead to capacity underutilization. Yet other enterprises experience cost

overruns which can impose severe cash flow problems on an enterprise resulting in the possible disruption of its investment plans and increasing its dependence on high-cost short-term funds. In the case of some, delays in construction and implementation prolong their capital recoupment period. All these adverse considerations not only reduce the expected rate of return on investment but sometimes make them negative.

Given the fact that the contributory factors for poor performance are often the same for many public enterprises, it will be obviously desirable to incorporate these lessons into any exercise on the evaluation of future public sector projects. Where this is done, we can hope at least to reduce on the recurrence of the same costly mistakes. Thus if we find that on the average the length of the construction period and cost overruns are higher for public enterprises as compared to private enterprises, this difference must be incorporated into our project analysis. Thus only those public sector projects which yield the target rate of return under the more realistic assumptions of possible construction delays and cost overruns should be chosen. Similarly where certain critical intermediate inputs enter into the production process, as in the case of resource-based industries, it is absolutely essential to determine if an adequate and regular supply of such inputs can be ensured. Where new products are produced, it is important to ensure that markets exist for them and that the products can be produced competitively. By observing these conditions, we can ensure a higher return on capital.

The preceding discussion on public enterprise policy on prices, investment and returns has been confined to Korea, Thailand and Malaysia. This is because no studies have been carried out into these areas for the other countries in the region i.e. Indonesia, Philippines and Singapore. However, in passing, it will be useful to note that in Singapore public enterprises have been assigned with commercial objectives and their performance have been and are continuing to be evaluated in terms of commercial profitability considerations. The situation is certainly analogous to that in Korea and public enterprises have generally performed rather well in this respect. In the Philippines and Indonesia, public enterprises have also been assigned with non-commercial objectives, and in the absence of any clear and well-articulated criteria, it has been difficult to evaluate their performance. In any case, judged in terms of commercial profitability consideration, the performance of these enterprises appear to be rather dismal.

It will be useful to wind up this discussion on public enterprise policies on prices, investment and rates of return by making some brief references to the situation that is likely to develop in respect of the ASEAN regional industrial projects. As stated earlier, the identification and allocation of regional industrial projects among the ASEAN member countries, as well as their operation will, in all likelihood, be undertaken by the State. The performance of public enterprises in the ASEAN countries, with the exception of Singapore, has been rather dismal. This is partly because the managers

of these enterprises are not likely to be subjectted to the discipline of the market in the way the managers of private enterprises are, and at the same time the authorities have not made them fully accountable for the results of their actions. Given this experience, one can certainly question the advisability of relying on the public enterprise sector for promoting regional industrialization among the member countries.

Reliance on the private sector in undertaking the projects may be better but here again the identification and allocation of regional industrial projects will require the prior approval of the public sector. If the public sector has a preconceived idea of what exactly constitutes a regional project, this can cause a bias in project selection. On the other hand, an approach based on customs union, where there are common external tariffs with no variations in rates as between commodities and where there are no internal trade barriers, do not suffer from the same disadvantages. Here, given the uniform tariff rates as between different commodities, entreprenuers will choose to produce these goods which are most profitable. Misallocation in resources arising from the wrong choice of projects can be minimised. In fact reliance on market signals can also help the State to economise on the use of administrative and entrepreneurial skills which are typically in scarce supply in developing countries. Of course this approach has the disadvantage that it can lead to an uneven distribution of benefits and costs among the member countries. If this is considered as a serious problem, then there is no choice but

to rely on the package deal approach, which can minimise on the uneven distribution of benefits and costs. To minimise on the wrong choice of projects, what will then be necessary is to ensure that thorough going cost benefit studies be undertaken before commitments are made on particular projects.

In any case, in the implementation of individual regional projects, a host of other issues have been raised in the ASEAN region. These issues relate to the nature of equity participation in and control over the projects by the host country and the other member countries, long-term commitments to purchase the output of the projects by the member countries, pricing of project outputs to member countries and the rest of the world and possible competition from the establishment of similar projects in the member countries. Whereas on the question of equity participation, there appears to be a consensus with the host country putting in 60% of the equity capital and the four other countries taking up the balance of the equity on an equal basis, none of the other issues have been resolved in a satisfactory manner. Whether the projects are undertaken by public or private enterprises, their multi-national character can lead to conflicts in objectives, in pricing and output decisions as well as in the returns and reinvestment criteria used.

To minimise on such problems it may be preferable, even in this package deal approach to the identification, selection and allocation of regional industrial projects, to agree on some form of selective

trade liberalization policies for the projects and activities chosen. Once it has been agreed, on the basis of the member countries preference for regional cooperation, to give say, a twenty percent protection for the products of regional projects, it will be best for each and every member country to own and operate the regional project by itself. The member countries will then have the option, on the basis of the prevailing prices, to obtain their supplies of the products either from the regional projects or the rest-of-the world (or even other member countries) by paying the prescribed tariff. This should certainly minimise on conflicts. To minimise on the uneven distribution of benefits and costs, differential tariffs can be set for the products of regional projects located in different countries. For instance, given that Singapore is more developed industrially than Indonesia, a lower tariff can be set for the product of the Singapore project as compared to that of the Indonesian project.

In this paper an attempt has been made to study the role and importance of public enterprise in certain selected countries in the East and Southeast Asian region. Public enterprise policy on prices, investment and rates of return as well as public enterprise performance have also been studied, though somewhat in a cursory fashion. Problems related to the encroachment of public enterprise into the sphere of activities of the private sector and their alleged unfair competition as well as the policies and programmes for their divestiture, which have emerged as serious issues in the late seventies, have also been

discussed at some length in the paper. Given the dearth of statistics and published works on the public enterprise sector and the unwillingness of the government authorities to deal with this sector in a systematic and comprehensive manner, it has been necessary to construct the likely picture of the sector in the coming years on the basis of its past record and performance rather than by reference to well-specified programmes in plan documents.

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